FDIC State Profile

Spring 2006

Delaware

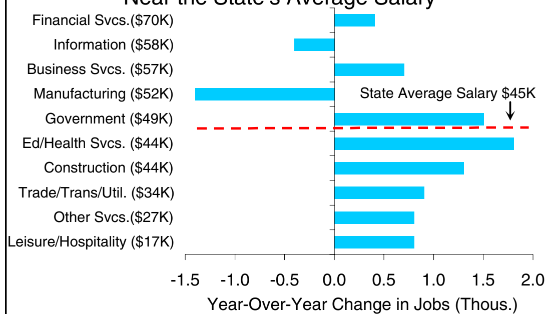
During 2005, Delaware's rate of job growth moderated, but jobs gains were broad-based across industry sectors and salary ranges.

- After achieving job growth rates above the U.S. average in 2004, the state's rate of job creation eased in 2005. In fourth quarter 2005, Delaware's job growth rate slowed for the second quarter in a row to 1.4 percent, but growth was in line with the U.S. average. The declining job growth rate reflected a slower pace of overall economic activity in the state.
- During 2005, 6,600 net new jobs were created in the state, down from 9,200 in 2004. More than half of the state's new jobs were in sectors with salaries clustered near the state average, including government, education and health services, and construction (see Chart 1).
- Job gains in financial and business services, with average salaries 20 percent or more above the state average, partially offset job losses in Delaware's information and manufacturing sectors.
- The state's lower-paying sectors, including trade, leisure and hospitality, and other services added a significant number of new jobs. In **Wilmington** and **Dover**, these sectors together accounted for a quarter of the new jobs during the year.

Housing activity has slowed from an elevated pace.

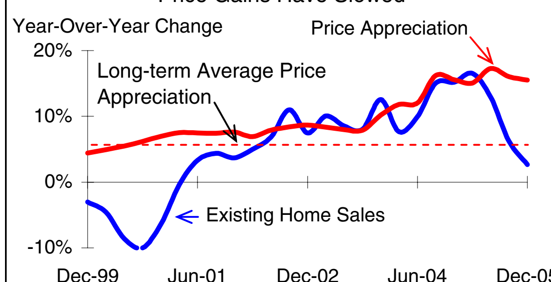
- Delaware's rate of home sales has sharply declined, while the rate of price appreciation has leveled off (see Chart 2). These trends coincide with a growing inventory of homes on the market and more time needed to sell.
- A slowdown in home sales and higher inventory levels could portend an easing in appreciation rates. In the fourth quarter 2005, Delaware's home prices increased 15.5 percent (13th highest in the nation), slightly down from the cyclical high of 17.3 percent reached earlier in the year, and significantly above the state's long-term average.[1]

Chart 1: Many of Delaware's New Jobs Pay Near the State's Average Salary



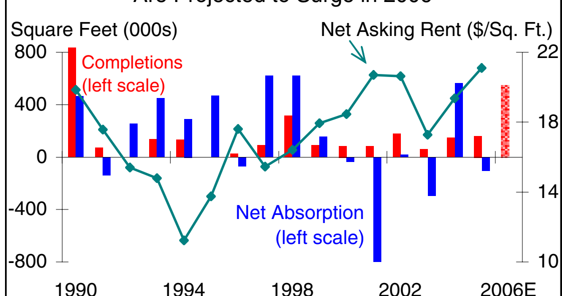
Note: Average annual wage as of third quarter 2005 shown in parenthesis. Job change calculated for year ending 2005. Source: Bureau of Labor Statistics.

Chart 2: Delaware's Home Sales and Price Gains Have Slowed



Note: Existing Home Sales data are 4-quarter trailing average; home price appreciation has averaged 6 percent between 1981 and 2005. Sources: National Association of Realtors, Office of Federal Housing Enterprise Oversight.

Chart 3: Office Completions in Wilmington Are Projected to Surge in 2006



Note: 2006 Completions are projected based on projects underway.
Source: Torto Wheaton Research.

[1] Office of Federal Housing Enterprise Oversight.

New office space is projected to increase significantly in Wilmington in 2006.

- According to projections, Wilmington's inventory of office space could increase by 550,000 square feet (4.5 percent of existing space) by the end of 2006, the largest amount since 1990 (see Chart 3).[2]
- The addition of space could constrain office rents, which have steadily increased since 2003. However, absorption of office space in Wilmington has been uneven, and office employment growth slowed throughout the second half of 2005. Vacancy rates, however, have been stable during the past year.
- Consolidation in the banking industry may result in reduced demand for Wilmington office space, as this sector accounts for a significant share of space. In the past several years, several of the state's credit card lenders have merged with other banks, and job growth in Delaware's banking industry has been negative for four years. In an effort to stem a potential outflow of jobs from industry consolidation, Delaware's legislature amended the state's franchise tax laws, potentially easing taxes on banks chartered in the state.

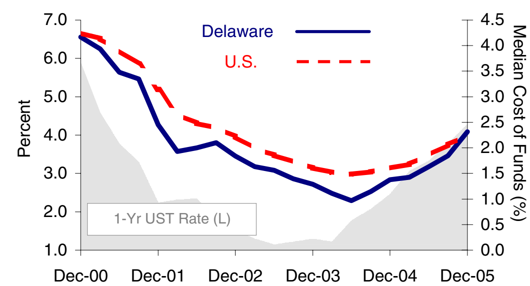
Profitability among Delaware's FDIC-insured institutions increased slightly in 2005, but the interest rate environment remains a challenge.[3]

- The state's median return-on-assets increased in 2005 reflecting strong loan growth and favorable credit quality conditions. Delaware's insured institutions reported a 13.3 percent loan growth rate in 2005, above the U.S. average of 8.4 percent.
- The state's net interest margins were flat in 2005. Loan growth amidst increasing market interest rates helped boost asset yields. However, Delaware's median cost of funds increased in 2005 in response to rising short-term interest rates (see Chart 4).
- Past-due loans accounted for less than 1 percent of all loans, below the national level of 1.3 percent. Loan loss provisions remained at low levels reflective of strong credit quality conditions.

Consumer loan growth increased as growth of mortgage and home equity loans abated.

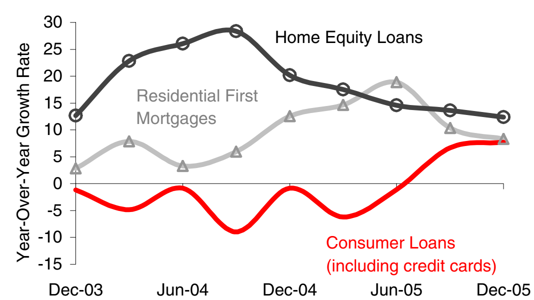
- Residential loan growth (including home equity loans and first mortgages) slowed from 13.8 percent in 2004 to 9.6 percent in 2005, likely reflecting a moderation in the state's pace of home sales toward the end of 2005. Growth in construction loan portfolios, which continued in 2005, may slow in 2006 if the inventory of available homes continues to increase.
- Strong home-price appreciation during the past several years has enabled Delaware's homeowners to borrow against increasing home equity in lieu of credit cards and other installment loans. In the midst of easing home price appreciation, the state's borrowers may be returning to other consumer loan products (see Chart 5).
- Against the backdrop of strong housing markets and favorable employment conditions, Delaware's insured institutions reported strong residential loan quality in 2005. At 0.88 percent, the median past-due residential loan ratio was below the 1.35 percent national ratio. However, loan quality may soften in 2006 from record strong levels as interest rate rise and mortgage loans season. Borrowers with marginal finances may be more vulnerable to repayment stress should rates continue to increase.

Chart 4: Funding Costs Increased in Delaware in 2005 Following the Rise in Short-term Rates



Sources: FDIC and Federal Reserve Board (Haver Analytics).

Chart 5: Consumer Loan Growth is Offsetting Slowdown in Home Lending



Note: Data are median figures for trailing 12-months.
Source: FDIC

[2] Torto Wheaton Research.
[3] Unless otherwise noted, banking performance discussion pertains to community (total assets less than $1 billion) and intermediate-sized institutions (total assets between $1 billion and $20 billion), excluding credit card banks.

Delaware at a Glance

ECONOMIC INDICATORS (Change from year ago, unless noted)

Employment Growth Rates	Q4-05	Q3-05	Q4-04	2004	2003
Total Nonfarm (share of trailing four quarter employment in parentheses)	1.4%	1.5%	2.1%	2.2%	0.0%
Manufacturing (8%)	-3.7%	-2.9%	-4.7%	-3.0%	-3.9%
Other (non-manufacturing) Goods-Producing (6%)	3.8%	4.0%	6.5%	8.2%	0.8%
Private Service-Producing (72%)	1.4%	1.5%	2.9%	2.6%	0.4%
Government (14%)	3.3%	3.0%	0.5%	0.7%	0.3%
Unemployment Rate (% of labor force)	4.5	4.2	4.1	4.0	4.2

Other Indicators	Q4-05	Q3-05	Q4-04	2004	2003
Personal Income	N/A	6.0%	8.4%	6.7%	4.4%
Single-Family Home Permits	-15.2%	-4.2%	-5.7%	11.7%	17.7%
Multifamily Building Permits	121.1%	-6.9%	-69.3%	15.8%	62.9%
Existing Home Sales	-5.1%	5.2%	12.1%	19.6%	9.0%
Home Price Index	15.5%	16.0%	15.5%	14.0%	8.6%
Nonbusiness Bankruptcy Filings per 1000 people (quarterly annualized level)	6.66	4.86	4.00	4.10	4.18

BANKING TRENDS

General Information	Q4-05	Q3-05	Q4-04	2004	2003
Institutions (#)	35	35	34	34	34
Total Assets (in millions)	470,875	457,234	436,274	436,274	216,182
New Institutions (# < 3 years)	3	3	2	2	4
Subchapter S Institutions	1	1	1	1	0

Asset Quality	Q4-05	Q3-05	Q4-04	2004	2003
Past-Due and Nonaccrual Loans / Total Loans (median %)	0.97	0.68	1.09	1.09	1.35
ALLL/Total Loans (median %)	1.17	1.22	1.31	1.31	1.38
ALLL/Noncurrent Loans (median multiple)	3.26	3.10	3.14	3.14	2.79
Net Loan Losses / Total Loans (median %)	0.10	0.08	0.18	0.17	0.32

Capital / Earnings	Q4-05	Q3-05	Q4-04	2004	2003
Tier 1 Leverage (median %)	10.91	10.49	10.23	10.23	10.34
Return on Assets (median %)	1.40	1.51	1.65	1.68	2.05
Pretax Return on Assets (median %)	2.15	2.50	2.56	2.52	3.12
Net Interest Margin (median %)	3.94	3.94	4.07	3.90	3.97
Yield on Earning Assets (median %)	6.47	6.29	5.71	5.15	5.67
Cost of Funding Earning Assets (median %)	2.40	2.12	1.49	1.15	1.56
Provisions to Avg. Assets (median %)	0.14	0.11	0.15	0.13	0.15
Noninterest Income to Avg. Assets (median %)	1.92	1.80	1.82	1.53	2.15
Overhead to Avg. Assets (median %)	3.26	3.14	3.41	3.12	3.54

Liquidity / Sensitivity	Q4-05	Q3-05	Q4-04	2004	2003
Loans to Assets (median %)	70.4	72.4	70.7	70.7	65.3
Noncore Funding to Assets (median %)	30.5	28.2	27.5	27.5	37.5
Long-term Assets to Assets (median %, call filers)	9.4	9.4	10.3	10.3	11.9
Brokered Deposits (number of institutions)	19	19	19	19	17
Brokered Deposits to Assets (median % for those above)	6.0	5.5	4.7	4.7	7.5

Loan Concentrations (median % of Tier 1 Capital)	Q4-05	Q3-05	Q4-04	2004	2003
Commercial and Industrial	20.2	23.0	30.6	30.6	18.1
Commercial Real Estate	46.5	34.7	75.2	75.2	39.7
Construction & Development	3.9	2.3	2.3	2.3	1.3
Multifamily Residential Real Estate	0.0	0.0	0.7	0.7	0.7
Nonresidential Real Estate	23.1	21.9	51.1	51.1	37.7
Residential Real Estate	133.5	139.8	191.3	191.3	182.3
Consumer	22.1	20.8	23.8	23.8	27.9
Agriculture	0.0	0.0	0.0	0.0	0.0

BANKING PROFILE

Largest Deposit Markets	Institutions in Market	Deposits ($ millions)	Asset Distribution	Institutions
Philadelphia-Camden-Wilmington, PA-NJ-DE-MD	156	221,259	< $250 million	8 (22.9%)
Dover, DE	11	1,404	$250 million to $1 billion	9 (25.7%)
			$1 billion to $10 billion	11 (31.4%)
			> $10 billion	7 (20%)